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Message Text

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17
ACTION TRSE-00

INFO OCT-01 NEA-14 ISO-00 AID-20 CIAE-00 COME-00 EB-11

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R 190410Z JUN 74
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 5327
INFO AMEMBASSY NEW DELHI
AMCONSUL KARACHI
AMCONSUL LAHORE

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PASS TREASURY

E.O. 11652: N/A
TAGS: EFIN, PK
SUBJ: US BANKS REQUEST INCREASE IN U.S. TREASURY RUPEE DEPOSITS

REF: A) EMBASSY MEMCON OF MAY 2, 1974
B) EMBASSY MEMCON OF MAY 22, 1974

1. SUMMARY: ON JUNE 12 REPRESENTATIVES OF THE THREE AMERICAN BANKS IN PAKISTAN -- FIRST NATIONAL CITY BANK (FNCB), BANK OF AMERICA AND AMERICAN EXPRESS CALLED ON DCM AND ECON COUNS. TO MAKE A FORMAL REQUEST FOR AN INCREASE IN U.S. TREASURY DEPOSITS WITH THEIR BANKS TO ASSIST THEM IN MEETING ADVERSE EFFECTS OF TIGHT GOP MONETARY POLICY AND RECENT NATIONALIZATION OF PAKISTANI BANKS. TOTAL AMOUNT REQUESTED WAS RS. 300 MILLION. THE BANK REPS PRESENTED A JOINT AIDE MEMOIRE DETAILING THE BASIS FOR THEIR REQUEST, THE TEXT OF WHICH IS BEING SENT SEPARATELY. ON BALANCE, WE DO NOT REPEAT NOT RECOMMEND BANKS' REQUESTS BE IMPLEMENTED. END SUMMARY.

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2. BANKERS ARGUED THAT AN INCREASE IN USG RUPEE DEPOSITS

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IS NECESSARY TO RESTORE THEIR ABILITY TO MAINTAIN PPRESENT
LEVELS OF OPERATION AND AVOID CONTRACTION. THE CLAIM
CONTRACTION IS LIKELY TO OCCUR BECAUSE PRESENT GOP
MONETARY POLICY ACTIONS AND SEVERAL DISADVANTAGING EFFECTS
OF RECENT BANK NATIONALIZATION OF PAKISTANI BANKS HAVE
INCREASED IMPACT OF LONG STANDING LIMITATIONS ON ACTIVITIES
OF FOREIGN BANKS. FIRST AND FOREMOST HAS BEEN THE VIRTUAL
DISAPPEARANCE OF THE INTERBANK CALL MARKETS, ON WHICH THE
US BANKS HAVE RELIED FOR ABOUT ONE-THIRD OF THEIR FUNDS.
SECOND IS THE ANNOUNCED PROHIBITION AGAINST THE
OPENING OF NEW BRANCHES BY FOREIGN BANKS. THIRD IS THE
INJUNCTION AGAINST FOREIGN BANKS ACCEPTING NEW ACCOUNTS
FROM THOSE WHO WOULD TRANSFER THEIR FUNDS FROM THE
NATIONALIZED BANKS. FOURTH IS THE GOP STIPULATION THAT
FOREIGN BANKS SHOW NO MORE THAN MODERATE OR NORMAL GROWTH.

3. BANKERS SAY THEIR REMITTABLE PROFITS TO U.S. ARE
LIKELY TO FALL TO THE DETRIMENT OF THE U.S. BALANCE OF
PAYMENTS. ORALLY, REPS ESTIMATED TOTAL 1973 DOLLAR
REMITTANCES BY ALL THREE BANKS TO BE ABOUT $1.5 MILLION.
BANKERS ALSO POINTED OUT THAT THE ABILITY OF U.S. BANKS
TO SERVICE THE FINANCING NEEDS OF U.S. CORPORATIONS IN
PAKISTAN WILL SUFFER UNLESS THE RUPEE RESOURCES OF THESE
BANKS ARE ALLOWED TO EXPAND. THE U.S. BANKS PROVIDE THE
GREATER PART OF THE FINANCING REQUIREMENTS OF U.S.
CORPORATIONS.

4. THE BANKS WOULD LIKE THE REQUESTED RS. 300 MILLION
SHARED EQUALLY AMONG THEM. I.E., RS. 100 MILLION TO EACH
BANK. IN OTHER MEETINGS WITH FNCB AND BANK OF AMERICA
REPS, THEY HAVE INDICATED WILLINGNESS TO PAY 8 PER CENT
INTEREST ON ANY NEW DEPOSITS. THIS IS MUCH HIGHER THAN
THE PRESENT WEIGHTED AVERAGE OF APPROXOMATELY 3 PER CENT
INTEREST PAID ON USG ACCOUNTS.

5. ALL THREE BANKS STATED THAT THEY HAVE CONSULTED
THEIR U.S. HOME OFFICES ABOUT THEIR SITUATION AND THAT
THESE OFFICES WILL LIKELY RAISE THE ISSUE WITH U.S.
TREASURY AND STATE DEPARTMENT.

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6. THE THREE REPRESENTATIVES CALLING ON THE EMBASSY
WERE: MR. MICHAEL R. HARDING-JONES, MANAGER, FIRST
NATIONAL CITY BANK; MR. X.C. NICKITAS, ASST. VICE
PRESIDENT, AMERICAN EXPRESS INTERNATIONAL BANKING CORPORA-
TION; AND MR. NAZIR G. CHINOY, ASST. MANAGER, BANK OF AMERICA.

7. COMMENT: EMBASSY TOLD THE THREE BANKS THAT IT
WOULD STUDY THE REQUEST AND CONSULT WASHINGTON AGENCIES.

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BANK REPS UNDERSTAND THAT TRANSFER OF RUPEES FROM STATE
BANK OF PAKISTAN TO U.S. BANKS WOULD INVOLVE CONSULTATIONS
WITH GOP AUTHORITIES.

8. THIS JOINT REPRESENTATION BY THE THREE BANKS WAS
EXPECTED BY THE EMBASSY FOLLOWING DISCUSSIONS OVER LAST
THREE MONTHS BETWEEN EMBASSY AND CON-GEN OFFICERS AND
REPRESENTATIVES OF THE THREE AMERICAN BANKS. IN A
PARALLEL ACTION, THE PRINCIPAL REPRESENTATIVE OF NATIONAL
AND GRINDLAY'S BANK, WHICH IS LARGEST BANK IN PAKISTAN
AND WHICH IS ALSO OWNED 40 PERCENT BY FNCB, HAS INFORMALLY
APPROACHED EMBASSY FOR AN INCREASE IN U.S. RUPEE DEPOSITS
WITYQTHEM. EMBASSY HAS ALSO RECEIVED A REQUEST FROM
AMERICAN EXPRESS TO INCREASE THE LEVEL OF THE EMBASSY USDO
CHECKING ACCOUNT MAINTAINED WITH THEM.

9. MISSION WOULD LIKE TO BE OF HELP TO AMERICAN
BANKS AS WE CONSIDER THAT THEY PERFORM VALUABLE FUNCTION
IN PAKISTAN'S ECONOMY AND RENDER ASSISTANCE TO OTHER MEMBERS
OF AMERICAN BUSINESS COMMUNITY. HOWEVER, IF WE WERE TO
APPROACH GOP FOR CONCURRENCE AND CONSULTATION UPON THE
BANK'S REQUEST, WE BELIEVE GOP REACTION WOULD BE NEGATIVE.
GOP HAS IMPOSED CURRENT TIGHT MONETARY POLICY IN AGREE-
MENT WITH RECOMMENDATIONS OF IMF, IBRD AND AID CONSORTIUM.
USG, LIKE OTHER DONORS, HAS PRAISED THIS EFFORT TO
RESTRAIN CONTINUING INFLATIONARY PRESSURES. AN INCREASE
IN OUR DEPOSITS WITH AMERICAN BANKS IN PAKISTAN COULD
BE INTERPRETED BY GOP AS A DELIBERATE USG ACTION CONTRA-
VENING GOP MONETARY POLICY.

10. IN ADDITION GOP'S REACTION COULD CONCEIVABLY BE
COUNTERPRODUCTIVE TO BANK'S LONG TERM INTEREST. AS
DEPARTMENT IS AWARE, GOP IN 1967 ASKED US TO REUDUCE BALANCES
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WITH COMMERCIAL BANKS AND RECENTLY EXPRESSED CONCERN
(ERRONEOUS) THAT USG HAD INCREASED SUCH BALANCES.
FURTHERMORE, AN APPROACH TO GOP AT THIS TIME COULD
STRENGTHEN GOP INTEREST IN ACHIEVING QUOTE INDIAN SOLUTION
UNQUOTE TO US RUPEE HOLDINGS. END COMMENT.

11. FYI: IN ACCORDANCE WITH TREASURY INSTRUCTIONS, USG
DEPOSITS IN PRIVATE BANKS IN PAKISTAN, WITH THE EXCEPTION
OF ACCUMULATED INTEREST AND THE USDO ACCOUNT, HAVE BEEN
FROZEN FOR SOME PERIOD. AS OF MAY 31, 1974 USG INTEREST
FREE DEMAND DEPOSITS WITH AMERICAN EXPRESS, BANK OF AMERICA
KARACHI, BANK OF AMERICA LAHORE, AND FNCB WERE
RESPECTIVELY RS. 43,940,174; 24,601,573; 1,169,407; AND
24,090,318. INTEREST BEARING DEPOSITS AS OF MAY 31, 1974
WITH AMERICAN EXPRESS, BANK OF AMERICA KARACHI, BANK OF

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AMERICA LAHORE, AND FNCB WERE RESPECTIVELY RS. 140,593,934;
78,334,781; 3,723,550; AND 76,706,871, ALLAT 4 PERCENT INTEREST
COMPUTED SEMI-ANNUALLY. IN ADDITION, RS. 2,992,768
WERE ON DEPOSIT WITH NATIONAL AND GRINDLAYS KARACHI AT
8 PER CENT PAYABLE ANNUALLY. AS OF THE SAME DAY, USG
ACCOUNTS WITH THE STATE BANK OF PAKISTAN WERE
RS. 902,524,831 IN THE USDO ACCOUNT; RS. 52,448,879 IN THE
PL 480 ACCOUNT; AND RS. 162,363,049, IN THE PL 480
INTEREST BEARING ACCOUNT. TOTAL U.S. RUPEE HOLDINGS IN
PAKISTAN COME TO RS. 1,521,196,478. END FYI.
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